

# Covid-19 and Islamic banking: A short commentary from Indonesia and Nigeria

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**19**

## Abstract

Covid-19 has brought a number of changes and impacts on banking system in Nigeria and Indonesia. Although Islamic Banking is not being operated to its optimal in the country, the Pandemic has had significant effect on both the general banking operations and the Islamic Banking sub-sector. The public, customers, have devised other means of financial dealings, hours spent on banking and rate of operations affected, the rate at which customers frequently move into banks reduced, more mobile banking users, and increased usage of a wide variety of banking services. This also resulted in more internet and mobile banking demands by customers, but less physical presence of customers at banking halls.

## Public interest statements

This brief commentary provides practitioners and academics with information on developments in the Islamic banking sector in Nigeria and Indonesia during and after the pandemic.

**Keywords:** Islamic bank, COVID-19, Nigeria, Indonesia

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**Abstrak**

Covid-19 telah membawa sejumlah perubahan dan dampak pada sistem perbankan di Nigeria dan Indonesia. Meskipun Perbankan Syariah belum beroperasi secara optimal di dalam negeri, namun Pandemi berdampak signifikan terhadap operasional perbankan umum dan subsektor Perbankan Syariah. Masyarakat, pelanggan, telah menemukan cara lain untuk transaksi keuangan, jam yang dihabiskan untuk perbankan dan tingkat operasi terpengaruh, tingkat di mana pelanggan sering pindah ke bank berkurang, lebih banyak pengguna mobile banking, dan peningkatan penggunaan berbagai layanan perbankan. Hal ini juga mengakibatkan lebih banyak permintaan internet dan mobile banking oleh pelanggan, tetapi kehadiran fisik pelanggan di ruang perbankan lebih sedikit.

**Public interest statements**

Komentar singkat ini memberikan informasi kepada praktisi dan akademisi mengenai perkembangan sektor perbankan syariah di Nigeria dan Indonesia selama pandemi.

**Background**

The COVID-19 pandemic has significantly impacted the banking industry, including Islamic banking. However, Islamic banking has experienced more positive developments in several countries than in conventional banking. Several Islamic banks in countries such as Indonesia, Malaysia, Turkey, and the United Arab Emirates (UAE) reported good financial performance in 2020 despite the pandemic. This can be attributed to several factors, such as increased demand for more sustainable and inclusive financial products and services and the availability of sufficient liquidity in the market. In addition, in several countries, the government has supported Islamic banking to help overcome the impact of the COVID-19 pandemic. For example, the Indonesian government provided liquidity facilities for Islamic banks to strengthen their capital base and help provide credit to customers affected by the pandemic. However, in other countries, such as Pakistan and Bahrain, Islamic banking is experiencing a more significant impact from the pandemic, especially on their financial performance. Several contributing factors included reduced demand for credit, increased credit risk, and falling oil prices, which affected the financial sector. Overall, the impact of the COVID-19 pandemic on Islamic banking is highly dependent on each country's economic and financial conditions. However, the Islamic banking sector, in general, has survived and thrived amid the pandemic and is expected to make a more outstanding contribution to sustainable economic and financial development in the future.

The public relatively rarely discusses the development of Islamic banking since the COVID-19 pandemic due to the diversion of attention to emergencies. We are interested in obtaining comments from academics from two countries (Indonesia and Nigeria) to obtain their responses regarding the development of Islamic banking in each country. The first opinion is Dr. Mohammed, Ph.D. Political Science (UUM Sintok-Kedah) is a Chief Lecturer and the Head of the General Studies Department at the Federal Polytechnic, Bauchi – Nigeria. The second comment we got from Ade Nur Rohim, Lecturer from the Sharia banking program at the Universitas Pembangunan Nasional Veteran Jakarta, Indonesia.

### **The reality of Islamic banking performance in this country**

*Although it is yet to be operated to its fullest capacity, it is increasingly popular and gaining more patronage among Nigerians, including the non-Muslims individuals and states authorities with wide variety of services free of interest and other anti-Islamic policies and other tie and bind hooks [Isah Shehu Mohammed].*

The development of Islamic banking in Nigeria is still relatively new but has been growing in recent years. Islamic banks in Nigeria operate under the legal framework provided by the Central Bank of Nigeria and are regulated by the Non-Bank Financial Institutions (NIFI) Act 2019. The first Islamic banks in Nigeria were established in the early 2010s, including Jaiz Bank, founded in 2012. Today, Jaiz Bank is one of Nigeria's most prominent Islamic banks, with a network of branches throughout the country. Besides Jaiz Bank, several other Islamic banks in Nigeria, such as Taj Bank, SunTrust Bank, and many more. In 2020, the Nigerian government launched an N162.5 billion (\$427.5 million) Sharia-Based Government Funding Program (Sukuk) to support infrastructure development. This Sukuk is the first Islamic bond in Nigeria and received a positive response from local and international investors. Even with this, the Islamic banking sector in Nigeria still faces several challenges, such as a lack of public awareness of Islamic financial products and infrastructure support to support Islamic banking operations. However, with the increasing demand for Islamic financial products and services, the Islamic banking sector in Nigeria can continue to grow and make a more significant contribution to the country's sustainable economic and financial development.

*Indonesia's banking is entering a significant development stage following the merger of several state-owned Islamic banks. This step has become one of the drivers of accelerating the development of sharia banking services by cooperating with various relevant stakeholders, such as MSME players, business people, traders, producers, and customers. As an intermediary institution, sharia banking is required to be able to improve its services in order to provide a sense of security and comfort for its customers. With the dual functions inherent in Islamic banking, the development of the commercial and social Islamic finance industry will be able to go hand in hand (Fauzia, 2017), to be able to contribute to fostering a just development (Widodo, 2019) [Ade Nur Rohim].*

Like in other countries, Islamic banking in Indonesia is also experiencing the impact of the COVID-19 pandemic. However, the Islamic banking sector in Indonesia continues to survive and even shows positive growth in several aspects. In 2020, several Islamic banks in Indonesia reported strong financial performance and significant asset growth, such as Bank Syariah Mandiri, BRI Syariah, and Bank Muamalat Indonesia. One factor that has helped Islamic banking in Indonesia survive is the increasing demand from the public for more sustainable and inclusive Islamic financial products and services. The Indonesian government is also supporting Islamic banking to help overcome the impact of the COVID-19 pandemic. For example, Bank Indonesia (BI) provides liquidity facilities for Islamic banks to maintain liquidity and strengthen their capital base.

The Indonesian government has also issued policies to expand access to finance for the community through financial inclusion and microfinance programs. However, the Islamic banking sector in Indonesia still needs to overcome several challenges, such as increasingly

fierce competition with conventional banks, lack of infrastructure support, and lack of public awareness of Islamic financial products and services. Although the COVID-19 pandemic has impacted the Islamic banking sector in Indonesia, this sector is still showing positive growth. It is expected to continue to grow to make a more outstanding contribution to sustainable economic and financial development in Indonesia.

Referring to the comments from the two sources, they have the same belief that Islamic banking from the two countries has experienced significant progress in the last decade. Particularly in Indonesia, Rohim emphasizes the inclusion of Islamic banking in the small business sector, which can significantly impact the national economy in general.

### **What lessons can we draw from this COVID-19 pandemic?**

*More things can be done without being physically present with others; banks can operate with less and less number of people in their banking halls, yet satisfactory services provided; people can move less but also do more things at the same time; people became thrown into fear and panic more than necessary [Isah Shehu Mohammed].*

*This pandemic has taught us all about changing behavior and lifestyle in a more positive direction by adapting to technology (Bhattacharya et al., 2021). Various community activities today have shifted towards digitalization. It starts from the education sector, retail trade, services, transportation, and payment transactions. These changes include donation activities with Islamic social and financial instruments developed by optimizing various digital platforms. This digital habit is the key to change related to people's lifestyles, prioritizing comfort, speed, and high flexibility in every activity (Rusydiana, 2020) [Ade Nur Rohim].*

It is undeniable that the COVID-19 pandemic has caused various business sectors to experience dramatic changes. However, several lessons that can be drawn from the pandemic are changes in business and service models. For example, banking is transforming by expanding digital platforms to make banking services easier. For example, when opening an account, video conferencing is applied, so that prospective customers do not need to come to the bank office in person. In Nigeria and Indonesia, such a transformation has taken place, making banking services more practical for customers.

### **What strategic policies are taken by the government to maintain the sustainability of Islamic banking in this country?**

*Although the enabling environment is there given by the Government, it is up to those interested, especially the Muslims with adequate financial facilities and others to make optimal use of the policies provisions and attain the goals [Isah Shehu Mohammed].*

*Regulatory support from the government to open access to the development of Islamic banking services needs to be increased. The government needs to open up as many opportunities as possible for the sharia microfinance industry such as BPRS, including sharia cooperatives as the vanguard that is closer to the people in rural and urban areas (Mukhlisin et al., 2020). This regulatory support is expected to increase Islamic financial inclusion for all levels of society [Ade Nur Rohim].*

Both experts agree that increasing policy support in the Islamic banking sector is still needed. Particularly in Indonesia, for example, efforts to strengthen Islamic banking were carried out by merging several state-owned Islamic banks into one bank. Meanwhile, Nigeria is a little different, where Islamic banking, although it has experienced increased interest, has yet to develop as fast as in Indonesia.

### Concluding remarks

*Islamic banking in Nigeria has a good future because there are large number of Muslims, Muslims and the non-Muslims alike are increasingly understanding the concept and basis of Islamic banking system. Those who opt into Islamic banking including states authorities are already reaping the benefits of same such as the SUKUK, etc. and running away from the shackles of the Western capitalist based debt, capital markets ties, interests hooks [Isah Shehu Mohammed].*

*Islamic banking needs to make breakthroughs to improve customer services, supported by regulations that provide a door of convenience. The regulations are expected to be a starting point for developing Islamic banks in Indonesia. The Covid-19 pandemic has also brought people's behavior toward positive change, so this condition needs to be welcomed by the Islamic banking industry with various digitization innovations in its products and services. Thus, the contribution of Islamic banking to national development will increasingly have a positive impact on the progress of the nation [Ade Nur Rohim].*

Finally, the two experts agree that the COVID-19 pandemic has had various negative consequences, but apart from that, it has also contributed to various positive changes. In Nigeria, the development of Islamic banking has started to occur because it is supported by the large Muslim community there. Various banking products, such as Sukuk, have also begun to be considered for public offerings. Meanwhile, in Indonesia, the COVID-19 pandemic has brought dramatic changes to services and people's behavior, where technological innovation and digitization of various services have become familiar to Indonesian society.

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